

### Masraf Al Rayan (MARK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR40.70</b>	<b>Price Target</b>	<b>QR34.00</b>
<b>Implied Upside</b>	<b>(16.5%)</b>		

#### Net Reversals Drive 2018 Bottom-Line; Lowering Estimates

**Masraf Al Rayan (MARK) reported net income of QR2.1bn, in-line with our estimate of QR2.1bn.** The company's bottom-line increased by 5.0% YoY due to net reversals of QR22.1mn (vs. net provisions & impairments of QR113.mn in 2017, ahead of IFRS 9 implementation) as net operating income receded by 1.8%. Moreover, cost-to-income ratio moved up to 24.0% vs. 21.1% in 2017 due to revenue marginally increasing by 1.8%, while opex jumping by 15.8%. On the other hand, capitalization remained robust with CET1 at 18.7%. MARK announced cash DPS of QR2.00 (unchanged vs. 2017), yielding 4.9%. We retain our Market Perform rating and QR34.00 Price Target on MARK.

#### Highlights

- **MARK's 2018 bottom-line increased YoY on the back of net reversals.** MARK reported net income of QR2.1bn (in-line with our estimates), increasing by 5.0% YoY. The bank booked net reversals of QR22.1mn vs. net provisions and impairments of QR113.4mn in 2017. Net operating income (before provisions) receded by 1.8% YoY due to marginal growth in revenue being offset by aggressive opex.
- **DPS came in-line with our estimate.** The bank announced DPS of QR2.00 (unchanged vs. 2017), yielding 4.9% and payout ratio of 72%.
- **Margins remained under pressure.** Net interest margin decreased by 8bps YoY to 2.39%. Tightening of the NIM was led by a rise in cost of funds exceeding the increase in yield on assets. Cost of funds increased by 50bps YoY to 2.68%, whereas yield on assets increased by 35bps to 4.60%. *The drop in margins is in-line with our expectations.*
- **C/I ratio moved up on the back of higher opex growth relative to revenue increase.** MARK ended 2018 with a C/I ratio of 24.0% vs. 21.1% in 2017. This was due to revenue marginally increasing by 1.9%, while opex jumping by 15.8%. Moreover, the bank generated negative JAWS of 13.9% in 2018 (-12.8% in 2017).
- **Asset quality worsened, but remains negligible.** NPL ratio moved to 0.83% vs. 0.47% in 2017, while absolute NPLs almost doubled to QR604.0mn. Coverage ratio of stage 3 loans (impaired or non-performing) improved to 50% vs. 44% at the end of 3Q2018. One-time impairment charges because of IFRS 9 had minimal impact on MARK's CET1 ratio; CET1 ratio remained robust at 18.7% vs. 19.2% in 2017.
- **Net loans and deposits fared better vs. its peers.** Net loans displayed flat performance YoY at QR72.2bn, while deposits decreased by 1.5% YoY to QR61.6bn. Thus, MARK's LDR remained elevated and at 117% vs. 115% in FY2017. *We are still of the opinion that the bank may increase its borrowings in order to enhance its liquidity profile/lower LDR.*

#### Catalysts

- News flow and or strategy in growing the business.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR34/share and Market Perform recommendation.** MARK is trading at P/B and P/E of 2.2x and 14.1x on our 2019 estimates, respectively. *The market is pricing a fundamental P/B (2.2x) and a sustainable RoE (18.0%) vs. our estimates (P/B: 1.8x & RoE: 15.8%).* The name trades at a PEG of 2.7x based on 5.4% CAGR (2018-23e).
- **Risks:** 1) Geopolitical factors, 2) More than expected increase in credit costs and 3) Losing market share in the government segment.

#### Key Financial Data and Estimates

	FY2018	FY2019e	FY2020e	FY2021e
EPS (QR)	2.84	2.89	3.15	3.51
EPS Growth (%)	5.0	1.9	8.7	11.7
P/E (x)	14.3	14.1	12.9	11.6
Tangible BVPS (QR)	17.7	18.5	19.6	21.0
P/TB (x)	2.3	2.2	2.1	1.9
DPS (QR)	2.00	2.00	2.00	2.25
Dividend Yield (%)	4.9	4.9	4.9	5.5

Source: Company data, QNBFS Research; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	40.70
Dividend Yield (%)	4.9
Bloomberg Ticker	MARK QD
ADR/GDR Ticker	N/A
Reuters Ticker	MARK.QA
ISIN	QA000A0M8VM3
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	42.65/33.01
3-m Average Volume ('000)	385.4
Mkt. Cap. (\$ bn/QR bn)	8.4/30.5
Shares Outstanding (mn)	750.0
FO Limit* (%)	49.0
Current FO* (%)	13.3
1-Year Total Return (%)	2.4
Fiscal Year End	December 31

Source: Bloomberg (as of January 24, 2019), \*Qatar Exchange (as of January 24, 2019); Note: FO is foreign ownership

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## Change In Estimates

	2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,473	2,337	-5.5	2,683	2,553	-4.8
Non Interest Income	597	544	-8.9	668	586	-12.3
Net Operating Income	2,365	2,195	-7.2	2,587	2,412	-6.8
Net Income (Reported)	2,258	2,171	-3.9	2,466	2,359	-4.3
Net Income (Attributable)	2,201	2,117	-3.8	2,404	2,300	-4.3

Source: QNBFS Research

## Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	2,268	2,337	2,553	2,841
Fees & Commissions	315	326	356	384
FX Income	152	162	173	190
Other Income	53	56	57	68
<b>Non-Interest Income</b>	<b>521</b>	<b>544</b>	<b>586</b>	<b>642</b>
<b>Total Revenue</b>	<b>2,788</b>	<b>2,881</b>	<b>3,139</b>	<b>3,483</b>
Operating Expenses	(668)	(686)	(727)	(787)
<b>Net Operating Income</b>	<b>2,120</b>	<b>2,195</b>	<b>2,412</b>	<b>2,695</b>
Net Provisions & Impairments	22	(8)	(36)	(42)
<b>Net Profit Before Taxes &amp; Minority Interest</b>	<b>2,142</b>	<b>2,187</b>	<b>2,376</b>	<b>2,654</b>
Tax	(2)	(3)	(3)	(3)
<b>Net Profit Before Minority Interest</b>	<b>2,140</b>	<b>2,184</b>	<b>2,373</b>	<b>2,650</b>
Minority Interest	(9)	(13)	(14)	(16)
<b>Net Profit (Headline/Reported)</b>	<b>2,130</b>	<b>2,171</b>	<b>2,359</b>	<b>2,635</b>
Social & Sports Contribution Fund	(53)	(54)	(59)	(65)
<b>Net Profit (Attributable)</b>	<b>2,077</b>	<b>2,117</b>	<b>2,300</b>	<b>2,569</b>

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
<b>Assets</b>				
Cash & Balances with Central Bank	3,027	3,232	3,280	3,007
Interbank Loans	1,496	3,003	3,982	3,481
Net Investments	19,005	20,920	23,323	24,976
Net Loans	72,164	75,076	79,639	87,015
Investment In Associates	526	539	553	569
Other Assets	887	751	733	801
Net PP&E	189	193	214	217
<b>Total Assets</b>	<b>97,294</b>	<b>103,715</b>	<b>111,724</b>	<b>120,064</b>
<b>Liabilities</b>				
Interbank Deposits	16,484	18,641	21,145	20,564
Customer Deposits	61,569	64,647	68,332	75,165
Other Liabilities	5,768	6,323	7,329	8,332
<b>Total Liabilities</b>	<b>83,820</b>	<b>89,611</b>	<b>96,806</b>	<b>104,062</b>
<b>Total Shareholders' Equity</b>	<b>13,277</b>	<b>13,894</b>	<b>14,694</b>	<b>15,763</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>97,294</b>	<b>103,715</b>	<b>111,724</b>	<b>120,064</b>

Source: Company data, QNBFS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
<b>Profitability (%)</b>				
RoE Attributable (Based on Beginning Book Value)	15.7	15.9	16.6	17.5
RoAA (Attributable)	2.1	2.1	2.1	2.2
RoRWA (Attributable)	3.3	3.3	3.4	3.4
NIM (% of IEAs)	2.39	2.46	2.51	2.58
NIM (% of RWAs)	3.61	3.65	3.77	3.78
NIM (% of AAs)	2.27	2.33	2.37	2.45
Spread	1.9	1.8	1.7	1.6
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	24.0	23.8	23.2	22.6
Cost-to-Income (Core)	24.4	24.3	23.6	23.0
<b>Liquidity (%)</b>				
LDR	117.2	116.1	116.5	115.8
Loans/Assets	74.2	72.4	71.3	72.5
Cash & Interbank Loans-to-Total Assets	4.6	6.0	6.5	5.4
Deposits to Assets	63.3	62.3	61.2	62.6
Wholesale Funding to Loans	28.1	30.8	33.4	30.8
IEAs to IBLs	123.5	121.9	120.9	121.1
<b>Asset Quality (%)</b>				
NPL Ratio	0.83	0.88	0.90	1.00
NPLs to Shareholder's Equity	4.55	4.79	4.92	5.56
NPLs to Tier 1 Capital	5.05	5.62	5.71	6.49
Coverage Ratio	97.5	91.7	89.1	77.6
ALL/Average Loans	0.8	0.8	0.8	0.8
Cost of Risk	-0.02	0.03	0.04	0.04
<b>Capitalization (%)</b>				
Tier 1 Ratio	18.7	18.5	17.7	17.2
CAR	19.2	19.0	18.2	17.7
Tier 1 Capital to Assets	12.3	11.4	11.3	11.3
Tier 1 Capital to Loans	16.6	15.8	15.9	15.5
Tier 1 Capital to Deposits	19.4	18.3	18.5	18.0
Leverage (x)	7.3	7.5	7.6	7.6
<b>Growth (%)</b>				
Net Interest Income	0.2	3.0	9.3	11.3
Non-Interest Income	10.1	4.5	7.7	9.6
OPEX	15.8	2.7	6.0	8.3
Net Operating Income	-1.8	3.5	9.9	11.8
Net Income (Attributable)	5.0	1.9	8.7	11.7
Loans	0.1	4.0	6.1	9.3
Deposits	-1.5	5.0	5.7	10.0
Assets	-5.5	6.6	7.7	7.5
RWAs	3.5	0.2	11.6	10.1

Source: Company data, QNBFS Research

### Recommendations

*Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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